



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 4/10/2007

GAIN Report Number: AR7009

Argentina

Sugar

Annual Report

2007

Approved by:

Robert Hoff

U.S. Embassy

Prepared by:

Ken Joseph

Report Highlights:

Argentine sugar exports for Marketing Year (MY) 2008 are forecast at 825,000 metric tons (MT), the highest of the past 30 years. Good weather, improved management at the farm and processing levels, and good returns, will result in larger export surpluses. For the first time in about twenty years, cane will be crushed for ethanol production. Although very incipient, most industry people believe this is a trend, which will grow.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Buenos Aires [AR1]
[AR]

SECTION I. SITUATION AND OUTLOOK

Argentine sugar exports in MY2008 are forecast to reach record levels - 825,000 MT (raw value). This would be the second highest volume exported ever, and the largest of the past 30 years. Despite a growing domestic demand, strong growth in production, with three record years in a row, is resulting in more abundant export surpluses. Argentina is expected to continue to export large volumes of both raw and refined sugar. Sugar exports in Calendar Year (CY)2006 totaled US\$241 million.

The Russian Federation is expected to continue to be the number one market, as it has been in the past two years. It buys primarily raw sugar, and at lower prices than other principal buyers of Argentina. Chile is expected to continue to be the second largest market, buying mostly refined sugar. The U.S. is also a significant market, importing raw sugar under a tariff rate quota. This quota year runs from October through September, and the tariff rate quota for Argentina in 2007 is 55,112 MT (raw value). Together, the above three markets accounted for 70 percent of Argentina's sugar exports in CY2006. Other markets for raw sugar exports are expected to be Syria and France, while Uruguay, the Middle East and African countries are expected to continue to be good markets for refined sugar.

In the aftermath of high FOB prices during 2006, most mills and traders expect prices to come down during MY2008. Based on private projections, sugar prices in the domestic market would be higher than those obtained in the world market. Sugar mills, which pay farmers under a payment-in-kind scheme, will retain from them roughly 28 percent of their sugar which the mills will export directly. For this sugar, farmers are paid the export price. By doing this, the market eliminates the surplus sugar which, if not exported, would put downward pressure on the price of the remaining sugar. Trade contacts indicate that over 550,000 MT of the MY2008 sugar crop have already been committed, with most shipments made in the last semester of 2007. The balance will be sold later in the year depending on how the harvest and the markets develop.

Domestic sugar production for 2007/08 is forecast at 2.68 million MT (raw value), the highest ever. Due to very good weather, improved returns since the peso devaluation, and attractive world sugar prices, mills and cane producers continued to invest in expanding production and improving efficiency. At the farm level, most producers have renewed their cane plantations, adopting new, very productive varieties. They have also managed plantations adequately, with optimal levels of fertilization and use of agricultural chemicals for weed and pest control. New and modern harvesters have been incorporated, allowing the harvest of green cane, avoiding the burning of plantations. Although there are no official data, sources estimate that between 30,000-40,000 hectares more were planted in the last few years. In the case of Tucuman, most of the newly incorporated area came from soybeans and low-producing lemon orchards. The expansion in this province is mostly in the hands of large producers; there are no new players.

Mills have also invested significantly, in search of better efficiency throughout the whole process. Nowadays, the focus of most mills is to reduce the level of contamination. By using new and modern harvesters, the burning of cane has been reduced significantly. Some mills will have to stop throwing waste into nearby rivers and most mills will need to reduce the level of pollution which they generate.

Based on private estimates, the gross margin (not including overhead costs) for a cane producer in MY2008 will be close to US\$270 per hectare, not too different from other crop alternatives. These returns are expected to be lower than the previous two crops as production costs have increased significantly and in some cases, sugar prices are lower.

Of the 22 mills that operated in MY2007, 15 are located in Tucuman Province, which account for 66 percent of the country's total sugar output. The five mills distributed between Jujuy and Salta accounted for 33 percent and two small mills in the Northeast of Argentina produced the balance. After a few very profitable sugar crops, most mills are in a very good financial situation. However, in MY2008, industry contacts indicate returns will be smaller because processing costs, such as energy and hand labor, have increased significantly.

Most private economists predict that the exchange rate in Argentina is forecast to remain quite stable in the next 12 months. However, with inflation rates at about 10 percent annually, the exchange rate will keep on losing competitiveness.

Domestic consumption for MY2008 is forecast at 1.76 million MT (raw value), slightly higher than the previous year. Although demand is increasing, sugar faces strong competition from artificial sweeteners. Approximately 40 percent of the sugar is for household use and the balance is consumed by the food and beverage industry. The fructose sector is estimated to remain quite stable.

Industry contacts estimate that approximately 50,000 MT of sugar are leaking out to neighboring countries, primarily Paraguay. This volume is not included under exports, but it is accounted under domestic consumption.

There are no policies directed specifically to the sugar sector. Several years ago the Argentine Congress passed a law by which sugar imports from Brazil pay, apart from the 20 percent import duty, an extra movable duty based on world sugar prices. This law was aimed at stopping inexpensive sugar imports from the neighboring country, which the local industry claims, is subsidized through their huge gasohol program.

As with many other food products, the Government of Argentina (GOA) agreed with leading sugar mills to keep retail prices stable in order to contain growing inflation. In early 2006 the price for 1-kilo sugar bags was set at ARP1.35 (the equivalent to US\$0.43), but it slowly increased throughout the year. Private sources expect retail prices to increase an additional 6-8 percent during CY2007.

The current price of sugar at the mill is approximately US\$290 per ton, and most people believe it will remain roughly at that price during the new crop, which will begin, in early-mid May.

In February 2007, the GOA published the regulation for the Bio Fuel Law, which had been passed in April 2006. Most analysts agree that it is very important to have a law for biofuels but criticize many aspects of it. One of the key elements of the law is that by the year 2010, all gasoline and diesel has to be mixed with 5 percent of biofuel. In the case of gasoline, Argentina consumes approximately 4 billion liters a year. Therefore, the country will need roughly 200 million liters of ethanol just to comply with this law. People are debating whether ethanol will be produced from corn or sugar cane, but most likely it will come primarily from the latter one. Biodiesel is expected to be produced mainly from soybean oil.

Argentina has produced 204 million liters of ethanol in MY2007. Only 17 sugar mills have produced alcohol, ranging from 255,000 liters at the smallest one, to 33 million liters at the biggest one. Of the total output, roughly half of it was exported and the other half went to the domestic market. Many local sugar mills are in the process of analyzing the expansion of their ethanol production capacity. One mill in Tucuman recently inaugurated a plant (focused on the export market) and another mill in Salta will expand its capacity in 2008. If conditions remain reasonable encouraging for ethanol production from cane, Argentina could quite easily expand its production to 300 million liters in a couple of years. MY2008 will be

the first year since the late 1980s, when the local gasohol program was deactivated, that cane will be crushed for alcohol production. Most contacts see this as a growing trend as the strong world developments of biofuels provide great opportunities to the local sugar industry. In the near future, a significant portion of the cane which today is exported as sugar could go to ethanol for the domestic or export markets, if domestic and international conditions permit.

SECTION II. STATISTICAL TABLES

PSD Table

Country Commodity	Argentina						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA	Post	Post	USDA	Post	Post	USDA	Post	Post
	Official	Estimate	Estimate	Official	Estimate	Estimate	Official	Estimate	Estimate
Market Year Begin		06/2005	06/2005		06/2006	06/2006		06/2007	06/2007
Beginning Stocks	232	232	232	96	96	51	90	90	53
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	2140	2140	2140	2300	2300	2440	0	0	2680
Total Sugar Production	2140	2140	2140	2300	2300	2440	0	0	2680
Raw Imports	0	0	0	0	0	0	0	0	0
Refined Imp.(Raw Val)	4	4	5	4	4	2	0	0	2
Total Imports	4	4	5	4	4	2	0	0	2
Total Supply	2376	2376	2377	2400	2400	2493	90	90	2735
Raw Exports	340	340	359	300	300	360	0	0	450
Refined Exp.(Raw Val)	300	300	282	350	350	360	0	0	375
Total Exports	640	640	641	650	650	720	0	0	825
Human Dom. Consumpti	1630	1630	1675	1650	1650	1710	0	0	1750
Other Disappearance	10	10	10	10	10	10	0	0	10
Total Use	1640	1640	1685	1660	1660	1720	0	0	1760
Ending Stocks	96	96	51	90	90	53	0	0	150
Total Distribution	2376	2376	2377	2400	2400	2493	0	0	2735

Argentina**Sugar Cane for Centrifugal**

2006			2007			(1000 HA)(1000 MT)		
USDA	Revised	Post	USDA	Estimate	Post	2008	Forecast	Post
Official	Estimate	Estimate	Official	Estimate	Estimate	Official	Estimate	Estimate
	06/2005	New		06/2006	New		06/2007	New
280	280	280	290	290	290	0	0	310
260	260	260	270	270	280	0	0	300
18100	18100	18100	19500	19500	20480	0	0	22500
18100	18100	18100	19500	19500	20480	0	0	22500
18100	18100	18100	19500	19500	20480	0	0	22150
0	0	0	0	0	0	0	0	350
18100	18100	18100	19500	19500	20480	0	0	22500